



Required Report - public distribution

Date: 5/26/2000

GAIN Report #HU0008

Hungary

Tobacco and Products

Annual

2000

Approved by:

Paul Spencer-MacGregor

U.S. Embassy

Prepared by:

Ferenc Nemes

Report Highlights: Hungary's tobacco production and cigarette output started to decline after 1998. An increase in cigarette prices and anti-smoking measures should reduce demand over the next couple of years.

Includes PSD changes: Yes
Includes Trade Matrix: No
Annual Report
Vienna [AU1], HU

Executive Summary	Page 1 of 7
Production	Page 1 of 7
Consumption	Page 1 of 7
Trade	Page 2 of 7
General	Page 2 of 7
Tariff Changes (Tobacco)	Page 2 of 7
Cigarette	Page 2 of 7
General	Page 2 of 7
Tariff Changes (Cigarettes)	Page 3 of 7
Taxes	Page 3 of 7
PS&D	Page 4 of 7
Unmanufactured Total	Page 4 of 7
Unmanufactured Dark Air & Sun Cured	Page 5 of 7
Unmanufactured Flue	Page 6 of 7
Cigarettes	Page 7 of 7

Executive Summary

The Government of Hungary (GOH) is trying to prevent the decline of the domestic tobacco industry because it is an important source of jobs. Hungary's tobacco industry will benefit from Hungary's eventual EU membership. However, because the government does not use direct support payments, it has a limited ability to boost production. Cigarette consumption and production is sinking in spite of reduced black market sales.

Production

Tobacco production did not increase in 1999, and forecasts for 2000 also indicate some decrease in both area and total crop. Curing companies decreased the number of farms under contract in tandem with the reduced demand by the cigarette industry for domestic leaf tobacco. Curing companies are focusing their marketing efforts on the larger, high-tech producers that are able to meet EU quality standards.

The summer heat came early to Hungary this year resulting in heat shock and increased pest infestations, which may reduce this year's crop.

Consumption

The domestic tobacco production supplies about one third of the cigarette industry's total demand. The GOH has indicated that it would like to increase the percentage of domestic tobacco in cigarettes to above 50 percent by 2002 but has not provided a concrete plan for doing

so. The cigarette industry is expecting sales to decline from 15,000 MT in 1999 to 12,000 MT in 2000. Production contracts with farms have been entered into this year but curing companies are finding it difficult to find export markets for the domestic origin leaf tobacco surpluses. International markets are depressed and suppliers from other countries are strongly supported by their governments.

GOH approved a new anti-smoking law in 1999. The new legislation makes it illegal to sell tobacco products to anyone under 18, bans smoking in public buildings, and prescribes separate smoking areas in restaurants. The industry expects the law to decrease cigarette sales from 22.4 bn pieces in 1999 to 21.5 bn in 2000.

Trade

General

Overall tobacco imports have increased in recent years but the breakdown by country of origin has not changed. Hungary imports oriental and burley tobacco and different cut tobacco mixes. (Note: Because of this, the production, supply and demand (PS&D) data for total tobacco (below) differs from the aggregate sum of the Flue Cured and Dark Air & Sun Cured tables.)

Tariff Changes (Tobacco)

MFN tariffs for leaf tobacco decreased in 2000 to 51.2% (tariffs for oriental tobacco remained at 32%). In quota TRQ tariffs and the total quota of 6,528 MT did not change :

2401 10 Leaf tobaccos (excluding 2401 1060 and 2401 1090) - 47%

2401 10 9000 - 8%

2401 20 Tobacco w/o stem (excluding 2401 2060 and 2401 2090) - 47%

Cigarette

General

After increasing in 1998, cigarette production sank to 22,962 million pieces in 1999, and a further decline in output is expected for 2000. In spite of stagnating production volumes, the industry has invested in improving quality. The output of non-filter products fell to a minimum and the production of light brands increased.

The export of cigarettes is about 4 bn to 6 bn pieces annually. Main destinations are the countries of the FSU and Middle East. Annual (legal) imports, mainly from Italy, Greece, France and Belgium, were 500 million pieces in 1999. Smuggled and "privately imported" cigarettes declined from 2-3 bn pieces in previous years to 1-1.5 bn pieces in 1999, due to the better coordination among customs checkpoints and stronger enforcement of tax regulations. Black market cigarettes are mainly from Ukraine, Romania and some Far East countries.

Tariff Changes (Cigarettes)

Duties on tobacco products were reduced in 1999 by about 6 percent as required by the WTO. Actual MFN import tariff rates on processed tobacco products are as follows:

Tariff number	Commodity	Tariff, percent, ad val.
2402.10 .000	Cigar, all kinds	48
2402.20 .004	Cigarettes	57.6
2402.90 .001	Other	57.6
2403.10 .011	Pipe tobacco	57.6
2403.10 .996	Other (&above 250g)	57.6
2403.10 .003	Homogenized regained tob.	57.6
2403.99 .007	Other (tob. derivates)	57.6

Taxes

There is a significant difference in taxes on tobacco products in Hungary and the EU. Currently, taxes account for about 41 percent of the retail cost of a pack of cigarettes in Hungary, while this figure stands at 57 percent in the EU. Hungary did not asked for derogation in this field as part of its EU-accession package and the government will need to implement an extensive cigarette price hike prior to Hungary's joining the EU.

PS&D**Unmanufactured Total**

PSD Table						
Country	Hungary					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	7000	7000	7300	7300	0	7000
Beginning Stocks	14400	14400	14400	14400	13100	13100
Farm Sales Weight Prod	15375	15375	15300	15300	0	15000
Dry Weight Production	12500	12500	12000	12000	0	11800
U.S. Leaf Imports	2900	2900	3000	3000	0	2600
Other Foreign Imports	15100	15100	16100	16100	0	15400
TOTAL Imports	18000	18000	19100	19100	0	18000
TOTAL SUPPLY	44900	44900	45500	45500	13100	42900
Exports	2000	2000	2000	2000	0	2000
Dom. Leaf Consumption	11000	11000	11400	11400	0	10000
U.S. Leaf Dom. Consum.	1500	1500	1300	1300	0	1800
Other Foreign Consump.	16000	16000	17700	17700	0	15100
TOTAL Dom. Consumption	28500	28500	30400	30400	0	26900
TOTAL Disappearance	30500	30500	32400	32400	0	28900
Ending Stocks	14400	14400	13100	13100	0	14000
TOTAL DISTRIBUTION	44900	44900	45500	45500	0	42900

Unmanufactured Dark Air & Sun Cured

PSD Table						
Country	Hungary					
Commodity	Unmfg.,Dark Air & Sun Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	3600	3600	3800	3800	0	3500
Beginning Stocks	2660	2660	2860	2860	2360	2360
Farm Sales Weight Prod	9480	9480	9700	9700	0	9500
Dry Weight Production	7900	7900	7500	7500	0	7300
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	10560	10560	10360	10360	2360	9660
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	7700	7700	8000	8000	0	7460
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	7700	7700	8000	8000	0	7460
TOTAL Disappearance	7700	7700	8000	8000	0	7460
Ending Stocks	2860	2860	2360	2360	0	2200
TOTAL DISTRIBUTION	10560	10560	10360	10360	0	9660

Unmanufactured Flue

PSD Table						
Country	Hungary					
Commodity	Tobacco, Unmfg., FlueCured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	3400	3400	3500	3500	0	3500
Beginning Stocks	5130	5130	3830	3830	2730	2730
Farm Sales Weight Prod	5660	5660	5600	5600	0	5900
Dry Weight Production	4600	4600	4500	4500	0	4700
U.S. Leaf Imports	1300	1300	1300	1300	0	1300
Other Foreign Imports	6000	6000	6000	6000	0	5900
TOTAL Imports	7300	7300	7300	7300	0	7200
TOTAL SUPPLY	17030	17030	15630	15630	2730	14630
Exports	1000	1000	1200	1200	0	1200
Dom. Leaf Consumption	3700	3700	3400	3400	0	2540
U.S. Leaf Dom. Consum.	1300	1300	1000	1000	0	1200
Other Foreign Consump.	7200	7200	7300	7300	0	7100
TOTAL Dom. Consumption	12200	12200	11700	11700	0	10840
TOTAL Disappearance	13200	13200	12900	12900	0	12040
Ending Stocks	3830	3830	2730	2730	0	2590
TOTAL DISTRIBUTION	17030	17030	15630	15630	0	14630

Cigarettes

PSD Table						
Country	Hungary					
Commodity	Tobacco, Mfg., Cigarettes			(MIL PCS)		
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	25100	25100	26200	21660	0	21800
Non-Filter Production	1700	1700	1300	1300	0	1200
TOTAL Production	26800	26800	27500	22960	0	23000
Imports	300	300	400	400	0	500
TOTAL SUPPLY	27100	27100	27900	23360	0	23500
Exports	3400	3400	4000	4000	0	3500
Domestic Consumption	23700	23700	23900	19360	0	20000
TOTAL DISTRIBUTION	27100	27100	27900	23360	0	23500